Manitoba

Government of Manitoba

Brief
to the
Federal Task Force on Broadcasting Policy
Part II:
The Extension of
Cable Television Services in Manitoba

Honourable Al Mackling, Q.C.
Minister responsible for
Manitoba Telecommunications Policy
November 26, 1985

1.0 BACKGROUND FACTS

There are currently 48 cable systems operating in Manitoba serving 246,000 subscribers in the province. Manitoba has the third highest cable penetration of any province in Canada (after Ontario and B.C.).

TABLE I:

Availability of Cable Television in Manitoba

Number of households in Manitoba	358,000
Number of households passed by cable	290,000
Number of households subscribing to cable	246,000
Number of cable subscribers in North	8,000
Number of rural cable subscribers.	30,000
Number of cable subscribers in Winnipeg.	208,000
Percentage of Manitoba households passed by cable.	82%
Percentage of Total Manitoba households subscribing to cable.	68%
Subscriber penetration in cabled areas	81%
Number of communities with 100 to 500 households which are presently uncabled	60

Cable systems in the province receive distant signals by a variety of means; approximately half of all systems in the province are using microwave/intercity broadband cable service provided by MTS, and the other half are CANCOM affiliates.

Cost of cable service varies substantially within the province. The following table provides a representative sample:

TABLE 2:

Typical After Tax Price for Basic Services

Winnipeg	$ 7.12
Minnedosa (Rural: ICBN)	14.61
The Pas (Northern: CANCOM)	22.47

Revenues of Manitoba cable operators exceed $20,000,000 annually:

TABLE 3:

Cable Revenues

Annual Manitoba Cable company revenues	$21,000,000
Annual Federal Cable Tax revenue	1,252,000
Annual Provincial Sales Tax revenue	1,336,000

2.0 CABLE HARDWARE OWNERSHIP

2.1 Ownership Structure

As in any other province, cable television systems in Manitoba are operated by CRTC licensees. However, unlike in any other jurisdiction except Saskatchewan's, provincial law in Manitoba requires that the Crown-owned Manitoba Telephone System (MTS), own the local cable distribution networks also known as local broadband networks (LBNs), which are then leased to cable operators. Any reserve capacity on the LBN is available for use by MTS or for lease to other interests for telecommunications purposes. As a result, MTS owns some forty LBNs throughout the province.

This arrangement holds benefits for all three parties involved in cable television:

1. Cable television subscribers throughout the province receive broadcast programming on high-quality, well-designed systems.

2. The cable operators' capital investment requirements are substantially reduced since the LBN is generally by far the biggest capital item in a cable undertaking.

3. MTS reserves that portion of the cable spectrum not required for broadcast purposes for other needs of its customers.

2.2 Financing a Rural LBN

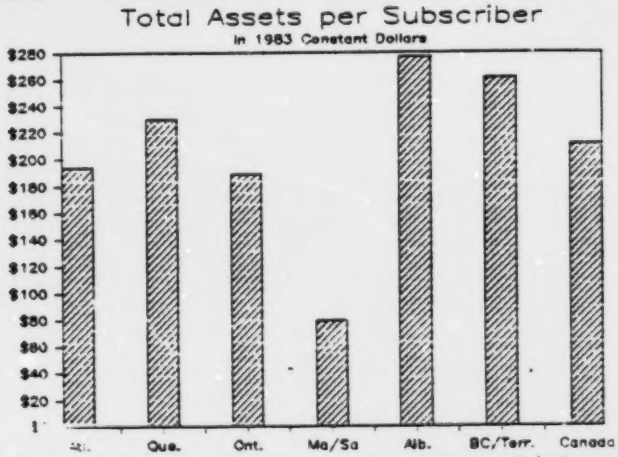
When a potential operator identifies an area to be served, MTS undertakes an economic study of the proposed service area, determining cost of: equipment, installation, financing, maintenance, overhead and operation. In addition, utility pole rental and rights of way fees are included in the basic cost of the LBN. This total cost is discounted to 70% and fees are billed to the cable operator on a per-subscriber-per-month basis. MTS attempts to recover the remaining 30% of the system cost by selling space on midband to cable operators for discretionary pay services or additional basic services and to other potential telecommunications customers.

2.3 Results of MTS Ownership

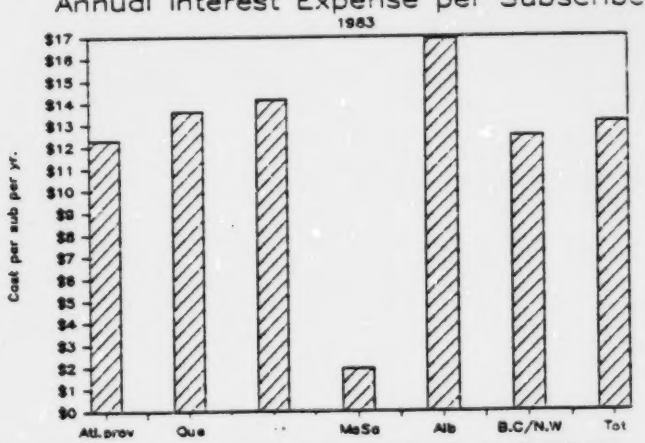
This arrangement has proven to be highly beneficial to Manitoba cable operators. New operators in rural areas can establish a system with minimal capital investment and as MTS rates are based on a per-subscriber cost, payments for the local broadband network, maintenance and pole attachment increase in direct proportion to the subscriber base rather than starting at full cost on the first day of operation.

The charts below, derived from recent Statistics Canada data, indicate that MTS ownership in Manitoba and SaskTel ownership in Saskatchewan has been profitable for the industry:

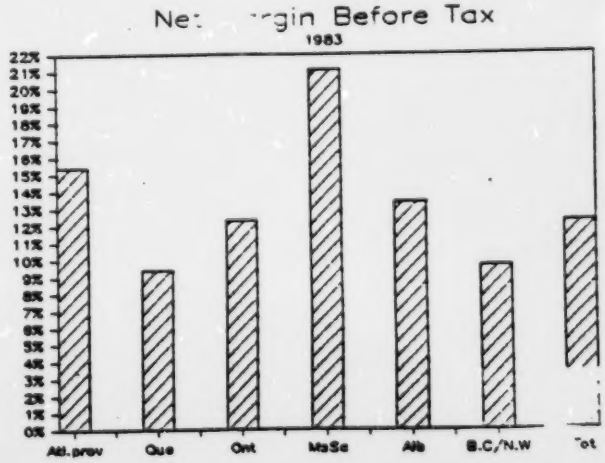
1. Manitoba and Saskatchewan cable operators require fewer asse[illegible]:



2. Manitoba and Saskatchewan cable operators' interest expense per-subscriber-per-month is lower than for other Canadian operators:



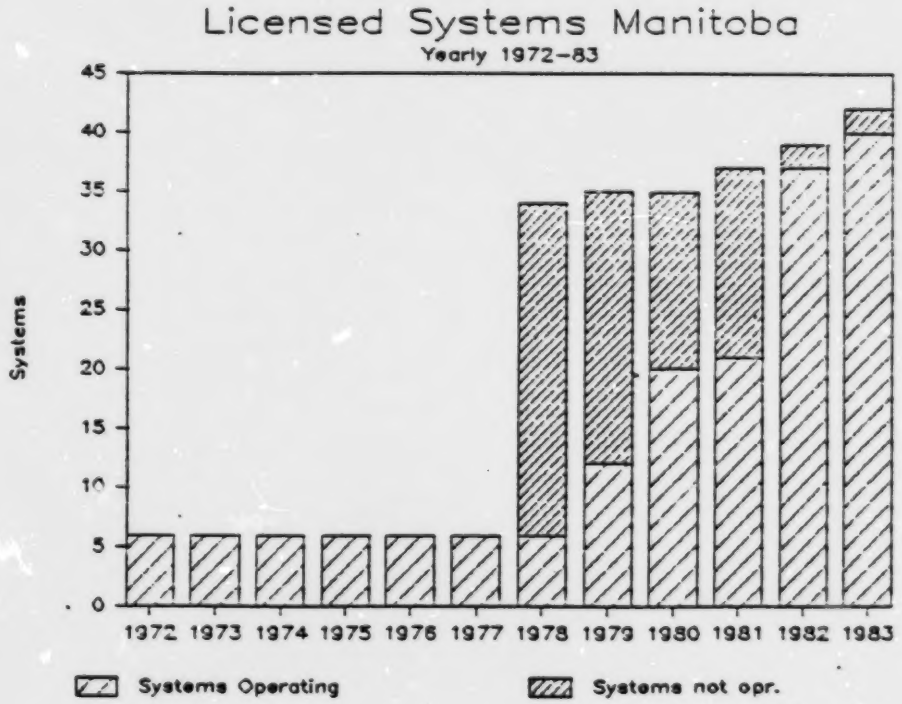
3. The profit margins of cable operators in Manitoba and Saskatchewan are highest in the industry.



3. RECEPTION AND DISTRIBUTION OF DISTANT SIGNALS

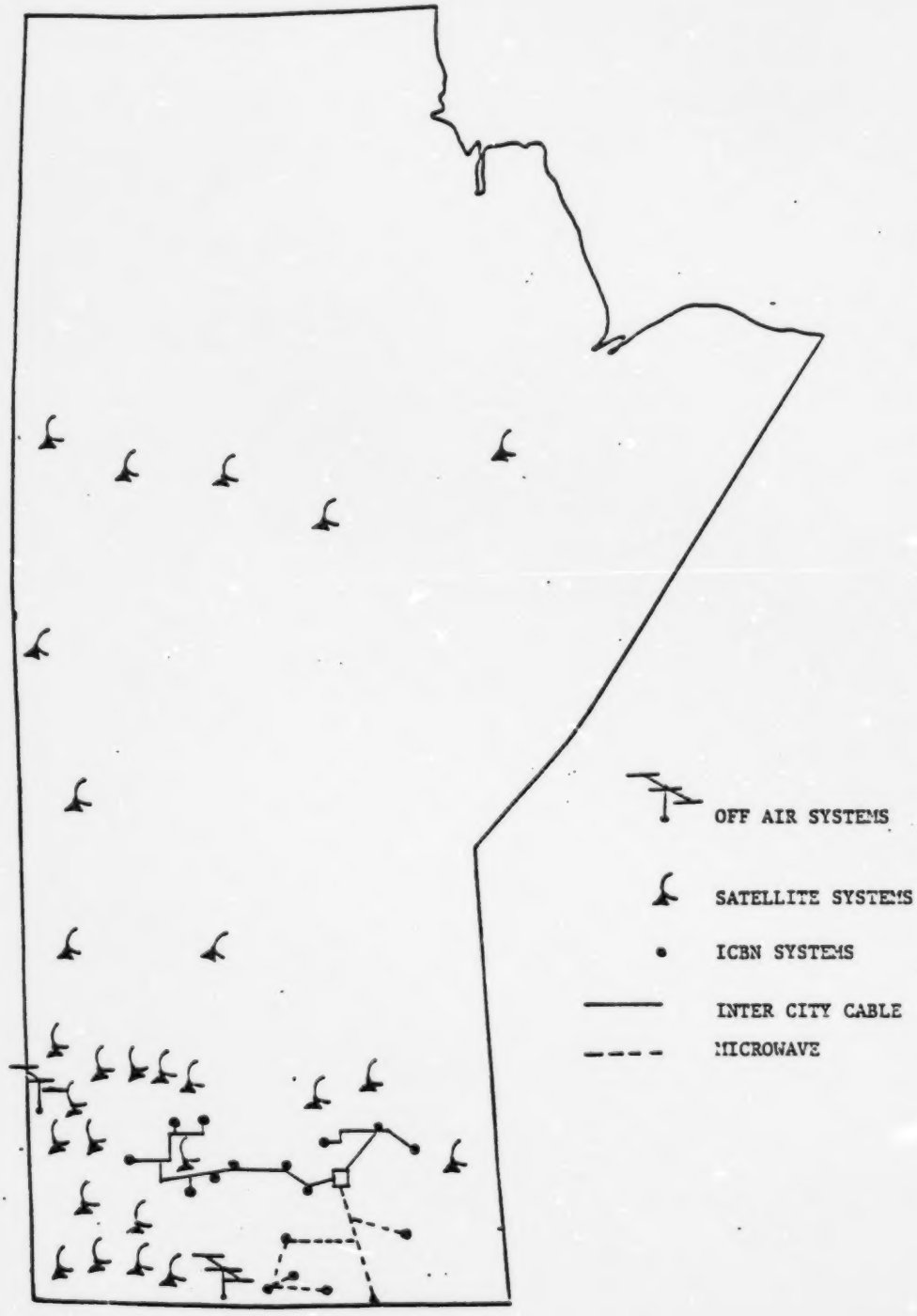
3.1 Two Sources of Distant Signals

Prior to 1979, because distant signal delivery systems had not yet been developed outside of Winnipeg, the number of cable systems in Manitoba remained low for a great many years. There are now two principle distant signal distribution systems available in Manitoba: the Intercity Broadband Network (ICBN) and CANCOM. Major bursts of cable system growth corresponded with the introduction of each of these delivery systems. Between 1979 and 1982, as the ICBN was being developed, the number of systems grew to over twenty and after the introduction of CANCOM in 1981, that number increased to approximately forty.



3.2 Location of Cable Systems in Manitoba

The following map provides an indication of where cable systems using different methods of signal reception are located:

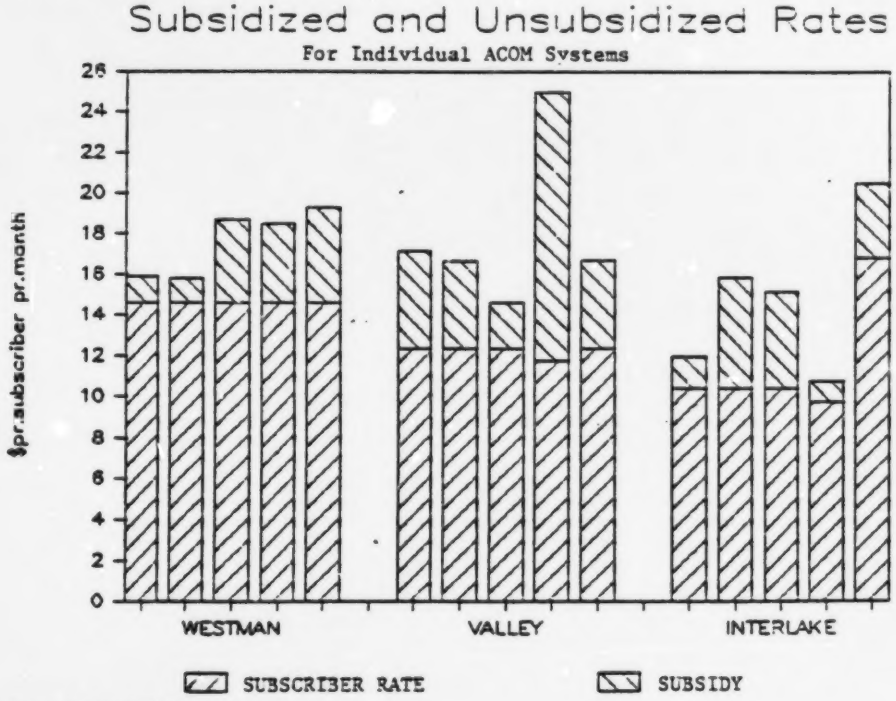


3.3 The Intercity Broadband Network

The ICBN, which is owned and operated by MTS, was built in the late 1970's and distributes North Dakota signals received at a head-end at Tolstoi, Manitoba, near the US border. Eighteen communities, including the city of Winnipeg, share both the Tolstoi head-end and the ICBN, to receive the 3+1 package from North Dakota. It costs approximately two cents per month/subscriber to deliver all four North Dakota signals to Winnipeg, however, it costs more to get these signals to the rural areas.

MTS's annual charge for delivering signals to the rural subscribers totals nearly $720,000, or an average of sixty-four cents per signal/subscriber/month, for each of the approximately 23,300 rural subscribers on this network.

Through a CRTC-approved agreement developed by the Association of Cable Operators of Manitoba, the annual cost of operating the ICBN is divided by all subscribers receiving the signals. Under the terms of the agreement, all Winnipeg subscribers pay twenty-five cents per month towards a subsidy pool. Approximately $576,000 is distributed each year to southern Manitoba operators, reducing their average monthly cost per-subscriber/signal to thirteen cents.



3.4 CANCOM

Due to the cost of extending terrestrially-based broadband distribution systems to sparsely populated rural and remote areas, the ICBN reaches a limited number of communities in southern Manitoba. Those systems which have no access to the ICBN must rely on other means of signal delivery. In the past, this lack of access hindered the development of cable in rural and remote areas.

As satellite receiving technology became affordable, a number of systems in the North took advantage of the increasing availability of US satellite channels. Recognizing the difficulty in preventing viewers from receiving unauthorized foreign signals if there was no domestic alternative, the Federal Government, in 1981, licensed CANCOM to deliver four Canadian signals to cable operators in remote and underserved communities. Shortly thereafter, it became apparent that Canadian signals alone would not satisfy cable subscribers in remote areas. However, as a result of the subsequent decision by the CRTC to allow CANCOM to distribute a US 3+1 package many new systems were established to distribute this service, and currently nearly half the cable systems in Manitoba carry CANCOM.

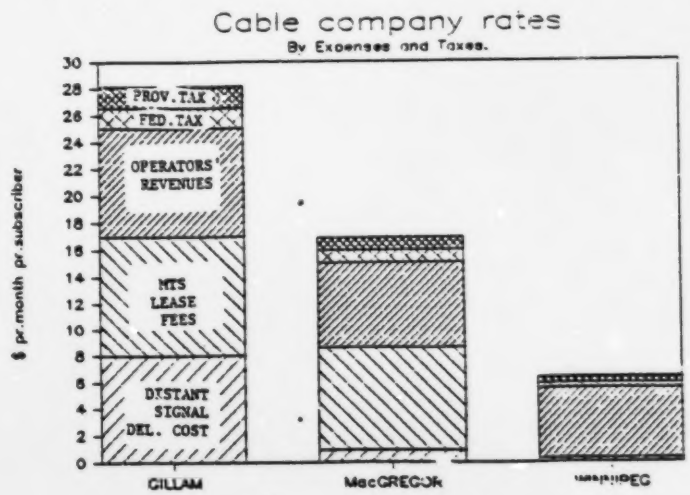
These systems, although offering services similar to those available in Winnipeg, generally charge far higher subscriber prices for the following reasons:

1. The northern and remote systems were built at a time when equipment costs were rising and interest rates were high.

2. CANCOM signals cost an average of a dollar per channel/subscriber for rural and remote systems. Winnipeg, by contrast, presently pays approximately two cents per-month/subscriber to have all four US channels delivered from North Dakota.

3. Federal and provincial sales taxes increase in proportion to retail price and in some areas approach $2.50 per subscriber/month.

Not only do northern and remote subscribers feel very strongly that their cable television rates are too high, but furthermore these high costs also limit the further extension of cable in the province.



3.5 Current Developments

Some Manitoba cable operators are now proposing changes which would fundamentally alter the structure of the distant signal delivery in the province:

> In Winnipeg, Greater Winnipeg Cablevision Limited (GWCL), with sixty-six thousand subscribers, has applied to the CRTC to replace its terrestrially delivered North Dakota 3+1 package with CANCOM's 3+1 package from Detroit.
>
> Winnipeg Videon, (142,000 subs.) and all the systems on the ICBN (23,300 subs.) have applied to replace two of the four North Dakota signals with CANCOM signals.

These changes may also affect the willingness of the urban systems to pay subsidies to support the distribution of signals to the rural members of ACOM.

3.6 Price Inequities

The CANCOM signals are being offered to the operators in Winnipeg and on the ICBN for as little as sixteen cents per channel/month/subscriber, while northern and remote systems in Manitoba continue paying an average of one dollar per channel/month/subscriber.

TABLE 4:

Sample CANCOM Prices in Manitoba

			Cost/Chan.
Northern Community	8 signals for	$7.00	$0.87
Westman Community	4 signals for	$4.00	$1.00
Proposed GWCL	4 signals for	$0.64	$0.16

It is difficult to find a defense on technical grounds which would support these pricing policies. It is no more costly to deliver CANCOM signals to a northern or remote system than to an urban system or to a network of systems.

4. FURTHER EXTENSION OF TELEVISION SERVICES IN MANITOBA

Some sixty communities in Manitoba with 100 to 500 households each are still uncabled and underserved due to current costs of establishing and operating cable undertakings for small communities. While little can be done to further lower the cost of equipment for new undertakings, there is the opportunity, through the lowering of signal delivery costs, to make such new systems more affordable.

5. MAKING RURAL AND REMOTE CABLE SERVICES AFFORDABLE

CANCOM's original purpose was to provide the best available television programming to remote subscribers at affordable prices. The needs of northern and remote communities lead to the creation of CANCOM, and through payment of high signal delivery rates during CANCOM's difficult cash flow period, rural/remote cable subscribers carried the company to its current state of development. If new low rates are being offered elsewhere in the province, these subscribers should be among the first to benefit.

The applications to replace the U.S. services currently imported from North Dakota with signals imported via CANCOM from Detroit, are being put forward in order to improve the quality of signals available in Winnipeg and along the ICBN. Substantial evidence suggests that there have been problems with the technical quality of the signals of two of the commercial stations received at the Tolstoi headend. Unfortunately, the replacement of signals from North Dakota with signals from Detroit would destroy an important vehicle of communications between North Dakota and Manitoba. Many Manitobans would prefer to find a solution to the technical reception problems which would give them a clearer picture while still providing the news, information, public affairs and weather programming about neighbouring states with prairie interest, rather than getting such services from an Eastern metropolitain centre such as Detroit.

However, if the applications are approved, simple calculations show that this will generate more than $1.2 million of new revenues from cable subscribers in Manitoba for CANCOM.

If the CRTC allows CANCOM access to the Winnipeg and rural ICBN markets, then the Commission has the opportunity to require from CANCOM a province-wide rate applicable to all CANCOM channels delivered to all subscribers in the province. If these rates are similar to those presently being offered to Winnipeg, the CRTC could ensure that northern and remote retail cable rates would drop by $3.00 to $5.00, while still providing CANCOM with increased revenue from cable subscribers in the province. Lower province-wide rates would also encourage greater penetration in existing rural and remote systems as well as facilitating the development of new systems in smaller centers, thus further increasing CANCOM's revenues from the province.

6. CONCLUSION

In Canada, only Manitoba and Saskatchewan require that LBNs be owned by the provincial telephone companies. As a result, there have occasionally been federal/provincial arguments over certain aspects of ownership and jurisdiction. However, whenever bilateral federal/provincial telecommunications policies are developed on a cooperative basis with the common goal of improving services to cable subscribers, the common carrier ownership of cable facilities has been beneficial to cable operators and cable subscribers.

These ownership policies have been particularly helpful for the extension of television services to rural and remote areas. However, there is more work to be done to make services affordable. The high cost of CANCOM signals places northern and remote subscribers at a great price disadvantage in relation to other Manitoba subscribers who presently receive their signals by terrestrial means, and it limits opportunities for further extension within the province.

The manner in which CANCOM has offered low-cost satellite signals to some Southern operators would, if accepted by the Commission, perpetuate the extreme price inequities between Southern and Northern/remote communities, institutionalizing discrimination against Northern/remote communities solely on the basis of location without regard for price of signal delivery.

The Government of Manitoba believes that, in striving to resolve problems related to signal quality of certain signals received from North Dakota, every effort should be made to maintain links with our neighbours and trading partners directly to the South. However, if CANCOM is to be allowed into the Winnipeg/ACOM market, one low price for CANCOM signal delivery throughout the Province should be established. One low province-wide rate would significantly lower signal costs in northern/remote communities; it would allow Southern systems to replace those U.S. signals which require technical improvement at a fair price and it would allow CANCOM to earn more revenue from cable subscribers in Manitoba while at the same time assisting in the extension and improvement of cable services by offering fair and equitable rates in the Province.

CABLE SYSTEMS USING MTS EQUIPMENT

COMMUNITY	LICENSEE	SAT/ ICBN	POTEN. SUBS	SUBS	SATUR. (%)	CATV RATE	AFT.TAX RATE
Minnedosa	Westman Media Co-Op.	ICBN	1,070	702	66%	$13.00	$14.61
Brandon	Westman Media Co-Op.	ICBN	13,455	10,201	76%	$13.00	$14.61
Neepawa	Westman Media Co-Op.	ICBN	1,350	927	69%	$13.00	$14.61
Carberry	Westman Media Co-Op.	ICBN	595	409	69%	$13.00	$14.61
Rivers	Westman Media Co-Op.	ICBN	445	257	58%	$13.00	$14.61
Steinbach	Valley Cablevision Ltd.	ICBN	2,185	827	38%	$10.49	$11.79
Morden	Valley Cable Vision Ltd.	ICBN	1,670	967	58%	$10.49	$11.79
Winkler	Valley Cable Vision Ltd.	ICBN	1,675	611	36%	$10.49	$11.79
Carman	Valley Cable Vision Ltd.	ICBN	980	501	51%	$10.30	$11.57
Altona	Valley Cable Vision Ltd.	ICBN	980	298	30%	$10.49	$11.79
Portage la Prairie	Portage Com.Cablevision	ICBN	4,600	3,618	79%	$8.70	$9.78
Southport	Portage Com.Cablevision	ICBN	435	277	64%	$10.70	$12.02
MacGregor	Portage Com.Cablevision	ICBN	335	162	48%	$15.00	$15.90
Selkirk	Interlk.Cablevision Ltd.	ICBN	3,225	2,406	75%	$9.30	$10.45
Stonewall	Interlk.Cablevision Ltd.	ICBN	740	528	71%	$9.30	$10.45
Beausejour	Interlk.Ca.Vis.Ltd.	ICBN	970	529	55%	$9.30	$10.45
Headingly	Headingly Communitec	ICBN	220	142	65%	$12.00	$12.72
Elie/Ste Eustache	Elie Communitec	ICBN	210	183	87%	$10.00	$10.60
La Riviere	La Riviere TV Club	OFF AI	82	81	99%	$3.00	$3.18
St.Lazare	Fouillard Imp.Exch.Ltd.	OFF AI	150	127	85%	$12.50	$13.25
Melita	Westman Media Co-Op.	SAT	490	263	54%	$13.00	$14.61
Virden	Westman Media Co-Op.	SAT	1,155	520	45%	$13.00	$14.61
Swan River	Westman Media Co-Op.	SAT	1,440	869	60%	$13.00	$14.61
Gladstone	Westman Media Co-Op.	SAT	375	145	39%	$13.00	$13.78
Gilbert Plains	Westman Media Co-Op.	SAT	390	117	30%	$13.00	$13.78
Deloraine	Westman Media Co-Op.	SAT	470	238	51%	$13.00	$14.61
Boissevain	Westman Media Co-Op.	SAT	645	330	51%	$13.00	$14.61
Dauphin	Westman Media Co-Op.	SAT	3,525	2,000	57%	$13.00	$14.61
Grandview	Westman Media Co-Op.	SAT	440	192	44%	$13.00	$13.78
Birtle	Westman Media Co-Op.	SAT	350	252	72%	$13.00	$14.61
Russell	Westman Media Co-Op.	SAT	630	346	55%	$13.00	$14.61
Killarney	Westman Media Co-Op.	SAT	915	470	51%	$13.00	$14.61
Roblin	Westman Media Co-Op.	SAT	765	391	51%	$13.00	$14.61
Souris	Westman Media Co-Op	SAT	710	318	45%	$13.00	$14.61
Ste. Rose du Lac	Westman Media Co-Op	SAT	390	240	62%	$13.00	$14.61
Gimli	Interlk.Comm.Corp.Ltd.	N SAT	580	238	41%	$17.76	$19.96
Lynn Lake	SRS Lynn Lake Inc.	N SAT	670	494	74%	$21.25	$23.88
Flin Flon	Ronik Communications Ltd.	N SAT	3,190	2,073	65%	$20.94	$23.53
The Pas	Norman Cable Ltd.	N SAT	2,150	1,192	55%	$20.00	$22.47
Leaf Rapids	Leaf Rapids Com.Dev.Ltd.	N SAT	528	465	88%	$21.20	$23.82
Gillam	Gillam CATV	N SAT	445	309	69%	$25.00	$28.09
Thompson	D&D TV Rentals Ltd.	N SAT	4,200	2,877	69%	$21.18	$23.80
SUBTOTAL							
Rural and remote			59,825	38,092	64%		
Winnipeg	Greater Winnipeg Cable.	ICBN	76,000	66,000	87%	$6.34	$7.12
Winnipeg	Winnipeg Videon	ICBN	165,366	142,215	86%	$6.35	$7.13
MANITOBA TOTALS			301,191	246,307	82%		